

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

VILLAGE OF ST. CHARLES

Saginaw County, Michigan

FINANCIAL STATEMENTS

March 31, 2006

VILLAGE OF ST. CHARLES

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**BERTHIAUME
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Certified Public Accountants



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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of St. Charles, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of St. Charles as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of St. Charles' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of St. Charles, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of St. Charles' basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Berthiaume & Co.

May 24, 2006

BASIC FINANCIAL STATEMENTS

VILLAGE OF ST. CHARLES

STATEMENT OF NET ASSETS

March 31, 2006

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 528,283	\$ 549,783	\$ 1,078,066	\$ 136,507
Receivables	100,881	80,032	180,913	6,576
Internal balances	(978)	-	(978)	978
Advance receivable/payable	146,368	-	146,368	(146,368)
Inventory	-	25,672	25,672	-
Prepaid expenses	17,355	1,502	18,857	-
Capital assets:				
Nondepreciable capital assets	62,000	36,327	98,327	-
Depreciable capital assets, net	988,644	1,851,637	2,840,281	166,207
Investment in joint venture	-	72,508	72,508	-
Total assets	1,842,553	2,617,461	4,460,014	163,900
Liabilities:				
Accounts payable and accrued expenses	18,647	36,308	54,955	3,354
Long-term liabilities:				
Due within one year	-	35,000	35,000	30,940
Due in more than one year	59,078	385,000	444,078	221,545
Total liabilities	77,725	456,308	534,033	255,839
Net assets:				
Invested in capital assets, net of related debt	1,050,644	1,467,964	2,518,608	(86,278)
Restricted for:				
Streets	98,116	-	98,116	-
Unrestricted	616,068	693,189	1,309,257	(5,661)
Total net assets	\$ 1,764,828	\$ 2,161,153	\$ 3,925,981	\$ (91,939)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Functions/Programs				
PRIMARY GOVERNMENT:				
<i>Governmental activities:</i>				
General government	\$ 212,825	\$ 45,959	\$ 10,800	\$ (156,066)
Public safety	305,586	6,015	9,604	(289,967)
Public works	424,937	99,689	165,838	(159,410)
Health and welfare	3,334	-	-	(3,334)
Community and economic development	3,127	250	-	(2,877)
Recreation and culture	<u>67,509</u>	<u>11,184</u>	<u>-</u>	<u>(56,325)</u>
Total governmental activities	<u>1,017,318</u>	<u>163,097</u>	<u>186,242</u>	<u>(667,979)</u>
<i>Business-type activities:</i>				
Sewer	181,999	165,772	-	(16,227)
Water	<u>299,249</u>	<u>342,702</u>	<u>-</u>	<u>43,453</u>
Total business-type activities	<u>481,248</u>	<u>508,474</u>	<u>-</u>	<u>27,226</u>
Total primary government	<u>\$ 1,498,566</u>	<u>\$ 671,571</u>	<u>\$ 186,242</u>	<u>\$ (640,753)</u>
COMPONENT UNITS:				
Downtown development authority	\$ 49,208	\$ 19,754	\$ -	\$ (29,454)
Local development finance authority	<u>8,142</u>	<u>8,970</u>	<u>-</u>	<u>828</u>
Total component units	<u>\$ 57,350</u>	<u>\$ 28,724</u>	<u>\$ -</u>	<u>\$ (28,626)</u>

continued

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Units</i>
	<u></u>	<u>Activities</u>	<u></u>	<u></u>
Changes in net assets:				
Net (Expense) Revenue	\$ (667,979)	\$ 27,226	\$ (640,753)	\$ (28,626)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	425,791	-	425,791	-
Property taxes, captured by component units	-	-	-	87,641
Franchise taxes	8,358	-	8,358	-
Grants and contributions not restricted to specific programs	226,840	-	226,840	-
Unrestricted investment earnings	16,226	15,352	31,578	4,813
Miscellaneous	<u>21,029</u>	<u>-</u>	<u>21,029</u>	<u>-</u>
Total general revenues	<u>698,244</u>	<u>15,352</u>	<u>713,596</u>	<u>92,454</u>
Change in net assets	30,265	42,578	72,843	63,828
Net assets, beginning of year	<u>1,734,563</u>	<u>2,118,575</u>	<u>3,853,138</u>	<u>(155,767)</u>
Net assets, end of year	<u>\$ 1,764,828</u>	<u>\$ 2,161,153</u>	<u>\$ 3,925,981</u>	<u>\$ (91,939)</u>

VILLAGE OF ST. CHARLES

GOVERNMENTAL FUNDS

BALANCE SHEET

March 31, 2006

	<i>Major Funds</i>				<i>Nonmajor Fund</i>	
					<i>Community Home Improvement Program Fund</i>	
	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Grant Revolving Loan Fund</i>		<i>Total Governmental Funds</i>
Assets:						
Cash and cash equivalents	\$ 235,767	\$ 48,463	\$ 18,214	\$ 90,629	\$ 82,641	\$ 475,714
Taxes receivable	28,344	-	-	-	-	28,344
Accounts receivable	6,982	-	-	-	-	6,982
Notes receivable	-	-	-	-	4,032	4,032
Due from other governmental units	31,044	21,975	8,505	-	-	61,524
Prepaid expenditures	15,853	751	751	-	-	17,355
Advance receivable from component unit	-	-	-	146,368	-	146,368
Total assets	<u>\$ 317,990</u>	<u>\$ 71,189</u>	<u>\$ 27,470</u>	<u>\$ 236,997</u>	<u>\$ 86,673</u>	<u>\$ 740,319</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accrued expenses	\$ 17,533	\$ 280	\$ 263	\$ -	\$ -	\$ 18,076
Due to component unit	978	-	-	-	-	978
Deferred revenue	-	-	-	-	4,032	4,032
Total liabilities	<u>18,511</u>	<u>280</u>	<u>263</u>	<u>-</u>	<u>4,032</u>	<u>23,086</u>
Fund balances:						
Reserved for:						
Prepaid expenditures	15,853	751	751	-	-	17,355
Long-term advance	-	-	-	146,368	-	146,368
Unreserved:						
General fund	283,626	-	-	-	-	283,626
Special revenue funds	-	70,158	26,456	90,629	82,641	269,884
Total fund balances	<u>299,479</u>	<u>70,909</u>	<u>27,207</u>	<u>236,997</u>	<u>82,641</u>	<u>717,233</u>
Total liabilities and fund balances	<u>\$ 317,990</u>	<u>\$ 71,189</u>	<u>\$ 27,470</u>	<u>\$ 236,997</u>	<u>\$ 86,673</u>	<u>\$ 740,319</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

March 31, 2006

Total fund balances for governmental funds \$ 717,233

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	1,448,704	
Less accumulated depreciation	<u>(573,141)</u>	875,563

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities. 4,032

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Compensated absences payable	(59,078)
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The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets. 227,078

Net assets of governmental activities \$ 1,764,828

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2006

	<i>Major Funds</i>				<i>Nonmajor Fund</i>	
					<i>Community</i>	
				<i>Grant</i>	<i>Home</i>	
	<i>General</i>	<i>Major</i>	<i>Local</i>	<i>Revolving</i>	<i>Improvement</i>	<i>Total</i>
	<i>Fund</i>	<i>Street</i>	<i>Street</i>	<i>Loan</i>	<i>Program</i>	<i>Governmental</i>
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Funds</i>
Revenues:						
Property taxes	\$ 425,791	\$ -	\$ -	\$ -	\$ -	\$ 425,791
Licenses and permits	14,353	-	-	-	-	14,353
State grants	229,232	119,870	45,968	-	-	395,070
Charges for services	98,548	-	-	-	-	98,548
Fines and forfeits	7,212	-	-	-	-	7,212
Interest and rents	46,682	1,524	564	1,353	2,921	53,044
Other revenue	31,829	-	-	667	739	33,235
Total revenues	853,647	121,394	46,532	2,020	3,660	1,027,253
Expenditures:						
Current						
General government	179,852	-	-	-	-	179,852
Public safety	294,016	-	-	-	-	294,016
Public works	157,094	97,693	92,597	-	-	347,384
Health and welfare	3,334	-	-	-	-	3,334
Community and economic development	1,427	-	-	1,200	500	3,127
Recreation and culture	60,541	-	-	-	-	60,541
Other	14,150	-	-	-	-	14,150
Capital outlay	19,743	-	64,938	-	-	84,681
Total expenditures	730,157	97,693	157,535	1,200	500	987,085
Excess (deficiency) of revenues over expenditures	123,490	23,701	(111,003)	820	3,160	40,168
Other financing sources (uses):						
Transfers in	-	-	104,913	-	-	104,913
Transfers out	(82,000)	(22,913)	-	-	-	(104,913)
Total other financing sources (uses)	(82,000)	(22,913)	104,913	-	-	-
Net change in fund balances	41,490	788	(6,090)	820	3,160	40,168
Fund balances, beginning of year	257,989	70,121	33,297	236,177	79,481	677,065
Fund balances, end of year	\$ 299,479	\$ 70,909	\$ 27,207	\$ 236,997	\$ 82,641	\$ 717,233

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balances - total governmental funds	\$ 40,168
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	83,916	
Less depreciation expense	<u>(43,256)</u>	40,660

Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the governmental funds.	(1,406)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(5,716)
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The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>(43,441)</u>
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Change in net assets of governmental activities	<u>\$ 30,265</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

March 31, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Funds</i>			<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Equipment Fund</i>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 257,181	\$ 292,602	\$ 549,783	\$ 52,569
Accounts receivable	25,605	46,679	72,284	-
Special assessments receivable	4,229	3,519	7,748	-
Inventory	4,019	21,653	25,672	-
Prepaid expenses	751	751	1,502	-
Total current assets	291,785	365,204	656,989	52,569
Noncurrent assets:				
Capital assets:				
Nondepreciable capital assets	27,278	9,049	36,327	-
Depreciable capital assets, net	746,383	1,105,254	1,851,637	175,081
Investment in joint venture	-	72,508	72,508	-
Total noncurrent assets	773,661	1,186,811	1,960,472	175,081
Total assets	1,065,446	1,552,015	2,617,461	227,650
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	876	9,614	10,490	572
Deposits payable	-	17,943	17,943	-
Accrued interest payable	-	7,875	7,875	-
Current portion of long-term debt	-	35,000	35,000	-
Total current liabilities	876	70,432	71,308	572
Noncurrent liabilities:				
Long-term debt	-	385,000	385,000	-
Total noncurrent liabilities	-	385,000	385,000	-
Total liabilities	876	455,432	456,308	572
Net assets:				
Invested in capital assets, net of related debt	773,661	694,303	1,467,964	175,081
Unrestricted	290,909	402,280	693,189	51,997
Total net assets	\$ 1,064,570	\$ 1,096,583	\$ 2,161,153	\$ 227,078

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended March 31, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Funds</i>			<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Equipment Fund</i>
Operating revenues:				
Charges for services	\$ 159,740	\$ 317,275	\$ 477,015	\$ -
Penalties	3,032	5,975	9,007	-
Hydrant rental	-	15,800	15,800	-
Equipment rental	-	-	-	90,893
Other	3,000	3,652	6,652	-
Total operating revenues	165,772	342,702	508,474	90,893
Operating expenses:				
Personnel	49,268	50,676	99,944	27,507
Fringe benefits	25,684	25,568	51,252	5,072
Supplies	3,406	4,080	7,486	14,446
Contracted services	5,221	9,540	14,761	340
Purchase of water	-	105,302	105,302	-
Telephone	660	1,920	2,580	-
Dues and membership fees	-	250	250	-
Education and training	-	100	100	-
Insurance	3,338	3,638	6,976	7,000
Utilities	7,414	918	8,332	-
Repair and maintenance	6,018	3,499	9,517	13,672
Equipment rental	14,892	11,579	26,471	25,000
Other services and supplies	-	455	455	2,196
Depreciation	66,098	57,472	123,570	41,218
Total operating expenses	181,999	274,997	456,996	136,451
Operating income (loss)	(16,227)	67,705	51,478	(45,558)
Non-operating revenues (expenses):				
Interest income	8,057	7,295	15,352	2,117
Interest expense	-	(24,252)	(24,252)	-
Total non-operating revenues (expenses)	8,057	(16,957)	(8,900)	2,117
Net income (loss)	(8,170)	50,748	42,578	(43,441)
Net assets, beginning of year	1,072,740	1,045,835	2,118,575	270,519
Net assets, end of year	\$ 1,064,570	\$ 1,096,583	\$ 2,161,153	\$ 227,078

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended March 31, 2006

	<i>Business-type Activities</i>			<i>Governmental Activities</i>
	<i>Major Funds</i>			<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Equipment Fund</i>
Cash flows from operating activities:				
Cash received from customers	\$ 169,973	\$ 331,664	\$ 501,637	\$ -
Cash received from interfund services	-	15,800	15,800	90,893
Cash payments to employees	(49,268)	(50,676)	(99,944)	(27,507)
Cash payments to suppliers for goods and services	(66,468)	(167,821)	(234,289)	(68,549)
Net cash provided by operating activities	<u>54,237</u>	<u>128,967</u>	<u>183,204</u>	<u>(5,163)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(5,159)	(4,976)	(10,135)	(1,746)
Principal payments	-	(35,000)	(35,000)	-
Interest paid	-	(24,252)	(24,252)	-
Net cash used by capital and related financing activities	<u>(5,159)</u>	<u>(64,228)</u>	<u>(69,387)</u>	<u>(1,746)</u>
Cash flows from investing activities:				
Interest received	<u>8,057</u>	<u>7,295</u>	<u>15,352</u>	<u>2,117</u>
Net cash provided by investing activities	<u>8,057</u>	<u>7,295</u>	<u>15,352</u>	<u>2,117</u>
Net increase (decrease) in cash and cash equivalents	57,135	72,034	129,169	(4,792)
Cash and cash equivalents, beginning of year	<u>200,046</u>	<u>220,568</u>	<u>420,614</u>	<u>57,361</u>
Cash and cash equivalents, end of year	<u>\$ 257,181</u>	<u>\$ 292,602</u>	<u>\$ 549,783</u>	<u>\$ 52,569</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (16,227)	\$ 67,705	\$ 51,478	\$ (45,558)
Adjustments:				
Depreciation	66,098	57,472	123,570	41,218
Change in current assets and current liabilities:				
Accounts receivable	3,136	4,030	7,166	-
Special assessments receivable	836	503	1,339	-
Prepaid expenses	229	229	458	-
Accounts payable and accrued expenses	165	191	356	(823)
Deposits payable	-	(510)	(510)	-
Accrued interest payable	-	(653)	(653)	-
Net cash provided by operating activities	<u>\$ 54,237</u>	<u>\$ 128,967</u>	<u>\$ 183,204</u>	<u>\$ (5,163)</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ST. CHARLES

FIDUCIARY FUND
STATEMENT OF NET ASSETS
March 31, 2006

	<i>Agency Fund</i>
Assets:	
Cash and cash equivalents	\$ 31
Total assets	<u>31</u>
Liabilities:	
Accounts payable and accrued expenses	<u>31</u>
Total liabilities	<u>31</u>
Net assets:	
Unrestricted	<u>-</u>
Total net assets	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of St. Charles was incorporated on October 26, 1869. The Village operates on a Council-Manager form of government and provides the following services to approximately 2,300 citizens as authorized by its charter: Public Safety (Police), highways and streets, sanitation, sewer and water, recreation and culture, public improvements, planning and zoning, and general administration.

The accounting policies of the Village of St. Charles conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the Village's reporting entity because of their operational or financial relationship with the Village.

Discretely Presented Component Units - The component units column in the government-wide financial statements includes the financial data of the Village's two component units. These units are reported in a separate column to emphasize that they are legally separate from the Village. The component units are described as follows:

Downtown Development Authority - The members of the governing board of the Downtown Development Authority (DDA) are appointed by the Village Council. The issuance of bonded debt and levying of taxes by the DDA must be approved by the Village Council. The Village also has the ability to significantly influence operations of the DDA.

Local Development Finance Authority - The members of the governing board of the Local Development Finance Authority (LDFA) are appointed by the Village Council. The issuance of bonded debt and levying of taxes by the LDFA must be approved by the Village Council. The Village also has the ability to significantly influence operations of the LDFA.

Joint Operations - The Village is a member of an inter-governmental agreement to operate a joint water authority with Swan Creek Township and James Township. The Village appoints two members to the joint water authority's governing board. The operating and capital budgets are funded by equal contributions from each government. Each government's share of assets, liabilities, and fund equity is thirty-three percent.

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village’s net assets resulting from current year activities.

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Village reports the following major governmental funds:

The ***General Fund*** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to accounted for in another fund.

The ***Major Street Fund*** is used to account for the maintenance and construction of the Village's major street system.

The ***Local Street Fund*** is used to account for the maintenance and construction of the Village's local street system.

The ***Grant Revolving Loan Fund*** is used to account for the boatworks grant.

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

The Village reports the following major enterprise funds:

The ***Sewer Fund*** is used to account for the revenues and expenses for the operation of a sewer system.

The ***Water Fund*** is used to account for the revenues and expenses for the operation of a water system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after April 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Sewer and water systems	30-50 years
Equipment	5-10 years
Furniture	5-10 years
Infrastructure	50 years
Site improvements	20 years
Vehicles	5-7 years

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Compensated Absences – Each Village employee will be paid for each sick day up to a 48 day maximum at retirement if they have been employed ten years or longer. Employees are paid for 100% of their vacation time at retirement but there is a limit on vacation carryover based on years of service. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes:

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14.

The 2005 taxable valuation of the Village totaled \$35,714,667 on which ad valorem taxes levied consisted of 12.3483 mills for the Village's operating purposes.

The delinquent real property taxes of the Village are purchased by Saginaw County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Manager submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

State Construction Code Act:

The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at April 1, 2004	\$ -
Current year building permit revenue	5,995
Related expenses:	
Direct costs	(9,300)
Cumulative surplus at March 31, 2005	<u><u>\$ -</u></u>

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village Council is in accordance with Public Act 196 of 1997. The Village's deposits and investments have been made in accordance with statutory authority.

The Village's deposits and investments are subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$1,223,356 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$621,007 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

The Village had no investments at March 31, 2006.

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>April 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2006</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 62,000	\$ -	\$ -	\$ 62,000
Depreciable capital assets:				
Buildings and improvements	1,093,725	6,393	-	1,100,118
Equipment	429,834	14,331	-	444,165
Infrastructure	-	64,938	-	64,938
Site improvements	34,124	-	-	34,124
Vehicles	302,487	-	-	302,487
Total depreciable capital assets	1,860,170	85,662	-	1,945,832
Accumulated depreciation	(872,714)	(84,474)	-	(957,188)
Depreciable capital assets, net	987,456	1,188	-	988,644
Governmental activities, capital assets, net	<u>\$ 1,049,456</u>	<u>\$ 1,188</u>	<u>\$ -</u>	<u>\$ 1,050,644</u>
	<u>April 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2006</u>
Business-type activities:				
Nondepreciable capital assets:				
Land	\$ 36,327	\$ -	\$ -	\$ 36,327
Depreciable capital assets				
Equipment	129,334	2,475	-	131,809
Lagoon improvements	-	5,160	-	5,160
Sewer system	2,560,856	-	-	2,560,856
Water system	2,007,160	2,500	(72,508)	1,937,152
Water tower	326,635	-	-	326,635
Total depreciable capital assets	5,023,985	10,135	(72,508)	4,961,612
Accumulated depreciation	(2,986,405)	(129,370)	5,800	(3,109,975)
Depreciable capital assets, net	2,037,580	(119,235)	(66,708)	1,851,637
Business-type activities, capital assets, net	<u>\$ 2,073,907</u>	<u>\$ (119,235)</u>	<u>\$ (66,708)</u>	<u>\$ 1,887,964</u>

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

	<u>April 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2006</u>
Component units:				
Depreciable capital assets:				
Buildings and improvements	\$ 184,356	\$ -	\$ -	\$ 184,356
Site improvements	<u>-</u>	<u>27,908</u>	<u>-</u>	<u>27,908</u>
Total depreciable capital assets	<u>184,356</u>	<u>27,908</u>	<u>-</u>	<u>212,264</u>
Accumulated depreciation	<u>(41,119)</u>	<u>(4,938)</u>	<u>-</u>	<u>(46,057)</u>
Component units, capital assets, net	<u>\$ 143,237</u>	<u>\$ 22,970</u>	<u>\$ -</u>	<u>\$ 166,207</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 17,528
Public safety	10,386
Public works	49,917
Recreation and culture	<u>6,643</u>
Total governmental activities	<u>\$ 84,474</u>

Business-type activities:	
Sewer	\$ 66,098
Water	<u>63,272</u>
Total business-type activities	<u>\$ 129,370</u>

Component units:	
Downtown Development Authority	<u>\$ 4,938</u>
Total component units	<u>\$ 4,938</u>

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Primary Government:	<u><i>Unavailable</i></u>
Loans	<u>\$ 4,032</u>

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 6: LONG-TERM LIABILITIES

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

Long-term liabilities at March 31, 2006 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
Business-type Activities:					
General Obligation Bonds:					
1998 Issue - Water System					
Serial Current Interest Bonds	6/1/06-6/1/17	5.6-5.7%	\$35,000	\$ 665,000	\$ 420,000
Component Units:					
General Obligation Bonds:					
1999 Issue - Limited Tax Bonds					
Serial Current Interest Bonds	8/1/06-8/1/14	4.8-5.5%	\$20,000-25,000	\$ 325,000	\$ 215,000
Contracts Payable:					
1994 Contract	3/31/06-3/31/10	4.0%	\$3,311-111,849	\$ 138,000	\$ 37,485

The following is a summary of long-term liabilities transactions for the year ended March 31, 2006:

	<u>April 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>March 31, 2006</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated Absences	\$ 53,362	\$ 5,716	\$ -	\$ 59,078	\$ -
Total governmental activities					
- long-term liabilities	<u>\$ 53,362</u>	<u>\$ 5,716</u>	<u>\$ -</u>	<u>\$ 59,078</u>	<u>\$ -</u>
Business-type activities:					
General Obligation Bonds:					
1998 Issue	\$ 455,000	\$ -	\$ (35,000)	\$ 420,000	\$ 35,000
Total business-type activities					
- long-term liabilities	<u>\$ 455,000</u>	<u>\$ -</u>	<u>\$ (35,000)</u>	<u>\$ 420,000</u>	<u>\$ 35,000</u>
Component units:					
Bonds and Contracts:					
1999 Issue	\$ 235,000	\$ -	\$ (20,000)	\$ 215,000	\$ 20,000
1994 Contract	48,039	-	(10,554)	37,485	10,940
Total component units					
- long-term liabilities	<u>\$ 283,039</u>	<u>\$ -</u>	<u>\$ (30,554)</u>	<u>\$ 252,485</u>	<u>\$ 30,940</u>

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<i>Year Ended March 31,</i>	<i>Business-type Activities</i>			<i>Component Units</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2007	\$ 35,000	\$ 22,645	\$ 57,645	\$ 30,940	\$ 12,113	\$ 43,053
2008	35,000	20,685	55,685	31,385	10,661	42,046
2009	35,000	18,725	53,725	36,849	9,055	45,904
2010	35,000	16,765	51,765	28,311	7,398	35,709
2011	35,000	14,805	49,805	25,000	6,069	31,069
2012-2016	175,000	44,590	219,590	100,000	10,906	110,906
2017-2020	70,000	3,990	73,990	-	-	-
	<u>\$ 420,000</u>	<u>\$ 142,205</u>	<u>\$ 562,205</u>	<u>\$ 252,485</u>	<u>\$ 56,202</u>	<u>\$ 308,687</u>

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Receivables:		
Taxes	\$ 28,344	\$ -
Accounts	6,868	72,284
Special assessments	-	7,748
Notes	4,032	-
Intergovernmental	61,524	-
Total receivables	<u>\$ 100,768</u>	<u>\$ 80,032</u>
Accounts payable and accrued expenses:		
Accounts	\$ 11,872	\$ 8,836
Payroll and related liabilities	6,775	1,654
Accrued interest	-	7,875
Deposits	-	17,943
Total accounts payable and accrued expenses	<u>\$ 18,647</u>	<u>\$ 36,308</u>

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 8: INTERFUND BALANCES AND TRANSFERS

There were no interfund receivable and payable balances at March 31, 2006.

Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Local Street Fund	\$ 82,000
Major Street Fund	Local Street Fund	<u>22,913</u>
	Total	<u>\$ 104,913</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9: ADVANCE TO/FROM COMPONENT UNIT

<u>Advance From</u>	<u>Advance To</u>	<u>Amount</u>
Grant Revolving Loan Fund	Component Unit - LDFA	<u>\$ 146,368</u>

NOTE 10: RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has been a member of the Michigan Municipal League sponsored self insurance/public entity risk pools for several years. The Village pays annual premiums to the respective pools for general liability, auto, and workers compensation insurance coverage. The agreements for the formation of the Michigan Municipal General and Auto Liability Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. The Michigan Municipal General and Auto Liability Fund provides coverage of claims up to \$2 million per occurrence with reinsurance provided to cover amounts in excess of this limit. The Michigan Municipal Workers Compensation Fund provides coverage of claims up to \$500,000 per occurrence with reinsurance provided to cover amounts in excess of this limit.

The Michigan Municipal General and Auto Liability Fund and the Michigan Municipal Workers Compensation Fund have published their own financial reports which can be obtained by contacting the management of each pool.

VILLAGE OF ST. CHARLES

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the Village Council and personnel policy and requires the Village to contribute at actuarially determined rates; the rates for fiscal year ended March 31, 2006 range from 16.36 to 32.63 percent of eligible payroll based on December 31, 2003 valuation.

Annual Pension Costs – For the fiscal year ended March 31, 2006, the Village's annual pension cost of \$86,693 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of March 31, follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual pension cost	\$ 86,693	\$ 73,962	\$ 73,271
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Deferred Compensation Plan:

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

Post Employment Benefits:

The Village provides health insurance benefits to its retirees. This benefit provides for the cost of the retirees insurance only, and any additional coverage for family members is provided on a reimbursement basis. Currently, there is one retiree receiving this benefit at an annual cost of \$4,593.

The Village is using a pay-as-you-go method to finance this benefit.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning April 1, 2009.

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for long-term advance – This reserve was created to indicate that portion of fund balance representing the advance receivable due from the component unit.

NOTE 13: COMPONENT UNITS REPORTING

A condensed statement of net assets for each of the discretely presented component units is shown below. The statement of activities is presented in the government-wide financial statements.

	<u>DDA</u>	<u>LDFA</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 29,193	\$ 107,314	\$ 136,507
Receivables	6,491	85	6,576
Internal balances - due from General Fund	978	-	978
Internal balances - advance to primary government	-	(146,368)	(146,368)
Capital assets:			
Depreciable capital assets, net	<u>166,207</u>	<u>-</u>	<u>166,207</u>
Total assets	<u>202,869</u>	<u>(38,969)</u>	<u>163,900</u>
Liabilities :			
Accounts payable and accrued expenses	3,354	-	3,354
Long-term liabilities:			
Due within one year	30,940	-	30,940
Due in more than one year	<u>221,545</u>	<u>-</u>	<u>221,545</u>
Total liabilities	<u>255,839</u>	<u>-</u>	<u>255,839</u>
Net assets:			
Invested in capital assets, net of related debt	(86,278)	-	(86,278)
Unrestricted	<u>30,059</u>	<u>(35,720)</u>	<u>(5,661)</u>
Total net assets	<u>\$ (56,219)</u>	<u>\$ (35,720)</u>	<u>\$ (91,939)</u>

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 14: DEFICIT FUND BALANCE

The component unit Local Development Finance Authority had a deficit fund balance of \$35,720 at March 31, 2006. The Village has filed a deficit elimination plan with the State of Michigan.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF ST. CHARLES

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended March 31, 2006

<i>Actuarial Valuation Date</i>	<i>12/31/2004</i>	<i>12/31/2003</i>	<i>12/31/2002</i>
Actuarial Value of Assets	\$ 1,510,575	\$ 1,414,251	\$ 1,293,608
Actuarial Accrued Liability (AAL)	2,188,430	2,045,237	1,852,246
Unfunded AAL (UAAL)	677,855	630,986	558,638
Funded Ratio	69%	69%	70%
Covered Payroll	376,672	398,060	367,821
UAAL as a percentage of covered payroll	180%	159%	152%

VILLAGE OF ST. CHARLES

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<i>Budgeted Amounts</i>			<i>Actual</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 412,741	\$ 422,241	\$ 425,791	\$ 3,550
Licenses and permits	15,400	15,400	14,353	(1,047)
State grants	280,275	232,275	229,232	(3,043)
Charges for services	97,720	97,720	98,548	828
Fines and forfeits	5,000	7,000	7,212	212
Interest and rents	41,600	46,600	46,682	82
Other revenue	18,300	27,900	31,829	3,929
Total revenues	871,036	849,136	853,647	4,511
Expenditures:				
Current:				
General government	179,052	193,775	179,852	(13,923)
Public safety	286,582	302,770	294,016	(8,754)
Public works	174,230	161,730	157,094	(4,636)
Health and welfare	3,334	3,334	3,334	-
Community and economic development	3,234	3,234	1,427	(1,807)
Recreation and culture	61,361	62,861	60,541	(2,320)
Other	14,150	14,150	14,150	-
Capital outlay	117,025	27,265	19,743	(7,522)
Total expenditures	838,968	769,119	730,157	(38,962)
Excess (deficiency) of revenues over expenditures	32,068	80,017	123,490	43,473
Other financing sources (uses):				
Transfers out	(82,000)	(82,000)	(82,000)	-
Total other financing sources (uses)	(82,000)	(82,000)	(82,000)	-
Net change in fund balance	(49,932)	(1,983)	41,490	43,473
Fund balance, beginning of year	257,989	257,989	257,989	-
Fund balance, end of year	\$ 208,057	\$ 256,006	\$ 299,479	\$ 43,473

VILLAGE OF ST. CHARLES

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under) Final Budget</i>
Revenues:				
State grants	\$ 123,501	\$ 123,501	\$ 119,870	\$ (3,631)
Interest and rents	<u>750</u>	<u>750</u>	<u>1,524</u>	<u>774</u>
Total revenues	<u>124,251</u>	<u>124,251</u>	<u>121,394</u>	<u>(2,857)</u>
Expenditures:				
Current				
Public works	<u>90,913</u>	<u>108,493</u>	<u>97,693</u>	<u>(10,800)</u>
Total expenditures	<u>90,913</u>	<u>108,493</u>	<u>97,693</u>	<u>(10,800)</u>
Excess (deficiency) of revenues over expenditures	<u>33,338</u>	<u>15,758</u>	<u>23,701</u>	<u>7,943</u>
Other financing sources (uses):				
Transfers out	<u>(30,875)</u>	<u>(30,875)</u>	<u>(22,913)</u>	<u>(7,962)</u>
Total other financing sources (uses)	<u>(30,875)</u>	<u>(30,875)</u>	<u>(22,913)</u>	<u>(7,962)</u>
Net change in fund balance	2,463	(15,117)	788	15,905
Fund balance, beginning of year	<u>70,121</u>	<u>70,121</u>	<u>70,121</u>	<u>-</u>
Fund balance, end of year	<u>\$ 72,584</u>	<u>\$ 55,004</u>	<u>\$ 70,909</u>	<u>\$ 15,905</u>

VILLAGE OF ST. CHARLES

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under) Final Budget</i>
Revenues:				
State grants	\$ 47,090	\$ 47,090	\$ 45,968	\$ (1,122)
Interest and rents	<u>300</u>	<u>600</u>	<u>564</u>	<u>(36)</u>
Total revenues	<u>47,390</u>	<u>47,690</u>	<u>46,532</u>	<u>(1,158)</u>
Expenditures				
Current				
Public works	93,638	102,666	92,597	(10,069)
Capital outlay	<u>65,800</u>	<u>65,800</u>	<u>64,938</u>	<u>(862)</u>
Total expenditures	<u>159,438</u>	<u>168,466</u>	<u>157,535</u>	<u>(10,931)</u>
Excess (deficiency) of revenues over expenditures	<u>(112,048)</u>	<u>(120,776)</u>	<u>(111,003)</u>	<u>9,773</u>
Other financing sources (uses):				
Transfers in	<u>112,875</u>	<u>112,875</u>	<u>104,913</u>	<u>(7,962)</u>
Total other financing sources (uses)	<u>112,875</u>	<u>112,875</u>	<u>104,913</u>	<u>(7,962)</u>
Net change in fund balance	827	(7,901)	(6,090)	1,811
Fund balance, beginning of year	<u>33,297</u>	<u>33,297</u>	<u>33,297</u>	<u>-</u>
Fund balance, end of year	<u>\$ 34,124</u>	<u>\$ 25,396</u>	<u>\$ 27,207</u>	<u>\$ 1,811</u>

VILLAGE OF ST. CHARLES

SPECIAL REVENUE FUND – GRANT REVOLVING LOAN FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Interest and rents	\$ 117	\$ 117	\$ 1,353	\$ 1,236
Other revenue	<u>25,483</u>	<u>25,483</u>	<u>667</u>	<u>(24,816)</u>
Total revenues	<u>25,600</u>	<u>25,600</u>	<u>2,020</u>	<u>(23,580)</u>
Expenditures:				
Current				
Community and economic development	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>	<u>-</u>
Total expenditures	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>	<u>-</u>
Net change in fund balance	24,400	24,400	820	(23,580)
Fund balance, beginning of year	<u>236,177</u>	<u>236,177</u>	<u>236,177</u>	<u>-</u>
Fund balance, end of year	<u>\$ 260,577</u>	<u>\$ 260,577</u>	<u>\$ 236,997</u>	<u>\$ (23,580)</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF ST. CHARLES

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended March 31, 2006

Current taxes:

Property taxes	\$ 416,251
Administration fees	9,540
	<u>425,791</u>

Licenses and permits:

Nonbusiness licenses and permits	5,995
CATV franchise fees	8,358
	<u>14,353</u>

State grants:

Liquor license fees	1,718
State revenue sharing - sales tax	226,840
Police grant	674
	<u>229,232</u>

Charges for services:

Refuse collection fees	80,070
Recreation fees	10,249
Copies	409
Police services and reports	20
Zoning/Variance/Appeals fees	250
Other	1,650
Charges to other funds and component units	5,900
	<u>98,548</u>

Fines and forfeitures:

Ordinance fines	7,212
	<u>7,212</u>

Interest and rents:

Interest	7,747
Building and rental	38,000
Rents	935
	<u>46,682</u>

Other revenue:

Contributions and donations	10,800
Other	21,029
	<u>31,829</u>

Total revenues	<u><u>\$ 853,647</u></u>
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VILLAGE OF ST. CHARLES

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended March 31, 2006

Expenditures:

General Government:

Council:

Personnel	\$ 2,970
Fringe benefits	227
Memberships and dues	1,812
Education and training	45
Other	<u>3,801</u>
	<u>8,855</u>

Office:

Personnel	63,341
Fringe benefits	45,700
Supplies	2,923
Contracted services	3,565
Mileage and expenses	433
Memberships and dues	1,606
Education and training	45
Printing and publications	1,137
Equipment rental	9,550
Other	<u>272</u>
	<u>128,572</u>

Clerk:

Personnel	3,000
Fringe benefits	<u>223</u>
	<u>3,223</u>

Audit:

Contracted services	<u>2,445</u>
	<u>2,445</u>

Treasurer:

Personnel	5,243
Fringe benefits	398
Supplies	2,097
Other	<u>14</u>
	<u>7,752</u>

VILLAGE OF ST. CHARLES

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended March 31, 2006

Expenditures, continued:

General Government, continued:

Buildings and Grounds:

Personnel	\$ 2,966
Fringe benefits	225
Telephone	2,608
Insurance	1,370
Utilities	8,205
Repairs and maintenance	7,276
	<u>22,650</u>

Attorney:

Contracted services	<u>2,112</u>
	<u>2,112</u>

Community News:

Printing and publications	<u>4,243</u>
	<u>4,243</u>

Total general government	<u>179,852</u>
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Public Safety:

Police:

Personnel	144,893
Fringe benefits	104,793
Supplies	6,908
Contracted services	9,372
Telephone	4,736
Memberships and dues	335
Conferences, workshops, and training	1,928
Insurance	8,500
Repairs and maintenance	3,251
	<u>284,716</u>

Building Inspection Department:

Personnel	7,392
Fringe benefits	563
Supplies	116
Contracted services	(40)
Mileage and expenses	1,263
Conferences, workshops, and training	6
	<u>9,300</u>

Total public safety	<u>294,016</u>
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VILLAGE OF ST. CHARLES

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended March 31, 2006

Expenditures, continued:

Public Works:

Department of Public Works:

Personnel	\$ 17,626
Fringe benefits	3,513
Supplies	39
Contracted services	3,080
Insurance	1,375
Utilities	8,589
Repairs and maintenance	5,984
Equipment rental	15,800
	<u>56,006</u>

Street Lighting:

Utilities	28,654
	<u>28,654</u>

Refuse Collection:

Contracted services	72,434
	<u>72,434</u>

Total public works 157,094

Health and Welfare:

Other Health and Welfare:

Other	3,334
	<u>3,334</u>

Total health and welfare 3,334

Community and Economic Development:

Planning:

Personnel	885
Fringe benefits	68
	<u>953</u>

Zoning:

Personnel	440
Fringe benefits	34
	<u>474</u>

Total community and economic development 1,427

VILLAGE OF ST. CHARLES

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended March 31, 2006

Expenditures, continued:

Recreation and Culture:

Recreation/Parks:

Personnel	\$ 31,795
Fringe benefits	2,688
Supplies	6,224
Contracted services	1,590
Telephone	298
Insurance	2,325
Utilities	3,817
Repairs and maintenance	5,242
Equipment rental	6,466
Other	96
	<u>60,541</u>

Total recreation and culture	<u>60,541</u>
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Other:

Insurance and bonds	<u>14,150</u>
	<u>14,150</u>

Total other	<u>14,150</u>
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Capital Outlay:

General government	6,393
Public safety	240
Public works	200
Recreation and culture	12,910
	<u>19,743</u>

Total capital outlay	<u>19,743</u>
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Total expenditures	<u>730,157</u>
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Other Financing Uses:

Transfers to other funds	82,000
	<u>82,000</u>

Total expenditures and other financing uses	<u>\$ 812,157</u>
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VILLAGE OF ST. CHARLES

COMPONENT UNITS COMBINING BALANCE SHEET

March 31, 2006

	<i>Downtown Development Authority</i>	<i>Local Development Finance Authority</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 29,193	\$ 107,314	\$ 136,507
Taxes receivable	6,491	85	6,576
Due from General Fund	978	-	978
Due from other component unit	<u>-</u>	<u>3,249</u>	<u>3,249</u>
Total assets	<u>\$ 36,662</u>	<u>\$ 110,648</u>	<u>\$ 147,310</u>
Liabilities and Fund Balances:			
<i>Liabilities:</i>			
Accounts payable and accrued expenses	\$ 1,936	\$ -	\$ 1,936
Due to other component unit	3,249	-	3,249
Deposits payable	1,418	-	1,418
Advance payable to Grant Revolving Loan Fund	<u>-</u>	<u>146,368</u>	<u>146,368</u>
Total liabilities	<u>6,603</u>	<u>146,368</u>	<u>152,971</u>
<i>Fund balances:</i>			
Unreserved	<u>30,059</u>	<u>(35,720)</u>	<u>(5,661)</u>
Total fund balances	<u>30,059</u>	<u>(35,720)</u>	<u>(5,661)</u>
Total liabilities and fund balances	<u>\$ 36,662</u>	<u>\$ 110,648</u>	<u>\$ 147,310</u>

VILLAGE OF ST. CHARLES

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2006

	<i><u>Downtown Development Authority</u></i>	<i><u>Local Development Finance Authority</u></i>	<i><u>Total</u></i>
Revenues:			
Property taxes	\$ 58,197	\$ 29,444	\$ 87,641
Interest and rents	<u>20,952</u>	<u>12,585</u>	<u>33,537</u>
Total revenues	<u>79,149</u>	<u>42,029</u>	<u>121,178</u>
Expenditures:			
Current			
Community and economic development	27,180	4,360	31,540
Capital outlay	31,375	3,782	35,157
Debt service			
Principal	30,235	-	30,235
Interest and fees	<u>13,942</u>	<u>-</u>	<u>13,942</u>
Total expenditures	<u>102,732</u>	<u>8,142</u>	<u>110,874</u>
Net change in fund balances	(23,583)	33,887	10,304
Fund balances, beginning of year	<u>53,642</u>	<u>(69,607)</u>	<u>(15,965)</u>
Fund balances, end of year	<u><u>\$ 30,059</u></u>	<u><u>\$ (35,720)</u></u>	<u><u>\$ (5,661)</u></u>

VILLAGE OF ST. CHARLES

FIDUCIARY FUND – AGENCY FUND
**COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES**

March 31, 2006

	<i>April 1, 2005</i>	<i>Additions</i>	<i>Deductions</i>	<i>March 31, 2006</i>
Assets:				
Cash and cash equivalents	\$ 71	\$ 524,162	\$ 524,202	\$ 31
Liabilities:				
Accounts payable and accrued expenses	\$ 71	\$ 524,162	\$ 524,202	\$ 31

VILLAGE OF ST. CHARLES

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

March 31, 2006

Saginaw County Water System Improvement Contract

Issue Dated June 18, 1997 in the amount of \$ 665,000

Less: Principal paid in prior years (210,000)
Principal paid in current year (35,000)

Balance payable at March 31, 2006 \$ 420,000

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>June 1</u></i>	<i><u>Interest due</u></i> <i><u>June 1</u></i>	<i><u>Interest due</u></i> <i><u>December 1</u></i>	<i><u>Total</u></i>
2007	5.60%	\$ 35,000	\$ 11,813	\$ 10,832	\$ 57,645
2008	5.60%	35,000	10,833	9,852	55,685
2009	5.60%	35,000	9,853	8,872	53,725
2010	5.60%	35,000	8,873	7,892	51,765
2011	5.60%	35,000	7,893	6,912	49,805
2012	5.60%	35,000	6,913	5,932	47,845
2013	5.60%	35,000	5,933	4,952	45,885
2014	5.60%	35,000	4,953	3,972	43,925
2015	5.65%	35,000	3,973	2,983	41,956
2016	5.65%	35,000	2,984	1,994	39,978
2017	5.70%	35,000	1,995	997	37,992
2018	5.70%	<u>35,000</u>	<u>998</u>	<u>-</u>	<u>35,998</u>
		<u>\$ 420,000</u>	<u>\$ 77,014</u>	<u>\$ 65,190</u>	<u>\$ 562,204</u>

VILLAGE OF ST. CHARLES

COMPONENT UNIT – DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF INDEBTEDNESS

March 31, 2006

Land Contract Payable

Issue Dated August 27, 1993 in the amount of	\$	138,000
Less: Principal paid in prior years	(89,961)	
Principal paid in current year	<u>(10,554)</u>	
Balance payable at March 31, 2006	\$	<u>37,485</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Annual</u></i> <i><u>Principal Due</u></i>	<i><u>Annual</u></i> <i><u>Interest Due</u></i>	<i><u>Total</u></i>
2007	4.00%	\$ 10,940	\$ 1,300	\$ 12,240
2008	4.00%	11,385	855	12,240
2009	4.00%	11,849	391	12,240
2010	4.00%	<u>3,311</u>	<u>23</u>	<u>3,334</u>
		<u>\$ 37,485</u>	<u>\$ 2,569</u>	<u>\$ 40,054</u>

1999 General Obligation Limited Tax Bonds

Issue Dated September 1, 1999 in the amount of	\$	325,000
Less: Principal paid in prior years	(90,000)	
Principal paid in current year	<u>(20,000)</u>	
Balance payable at March 31, 2006	\$	<u>215,000</u>

Balance payable as follows:

<i><u>Fiscal</u></i> <i><u>Year Ended</u></i>	<i><u>Rate</u></i>	<i><u>Principal due</u></i> <i><u>August 1</u></i>	<i><u>Interest due</u></i> <i><u>August 1</u></i>	<i><u>Interest due</u></i> <i><u>February 1</u></i>	<i><u>Total</u></i>
2007	4.90%	\$ 20,000	\$ 5,655	\$ 5,155	\$ 30,810
2008	5.00%	20,000	5,155	4,650	29,805
2009	5.05%	25,000	4,650	4,012	33,662
2010	5.10%	25,000	4,013	3,362	32,375
2011	5.20%	25,000	3,363	2,706	31,069
2012	5.25%	25,000	2,706	2,043	29,749
2013	5.30%	25,000	2,044	1,369	28,413
2014	5.40%	25,000	1,369	688	27,057
2015	5.50%	<u>25,000</u>	<u>688</u>	<u>-</u>	<u>25,688</u>
		<u>\$ 215,000</u>	<u>\$ 29,643</u>	<u>\$ 23,985</u>	<u>\$ 268,628</u>



May 24, 2006

To The Village Council
Village of St. Charles

We have audited the financial statements of the Village of St. Charles for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the Village of St. Charles in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of St. Charles are described in Note 1 to the financial statements. We noted no transactions entered into by the Village of St. Charles during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the organization's financial statements, dated May 24, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants